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McDonald's

1972 annual report









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**McDonald's Corporation and Subsidiaries highlights of 1972 and 10-year comparison \***

	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963
figures in thousands of dollars, except per share amounts and number of restaurants										
Sales by all licensed and Company-owned restaurants	\$1,032,801	784,058	587,041	450,825	335,411	266,368	218,507	170,865	129,591	97,978
Revenues:										
Gross sales by Company-owned restaurants	\$ 302,715	230,108	165,532	122,234	91,493	49,512	35,003	30,155	19,131	10,595
Rental income	\$ 56,751	41,977	30,789	22,861	16,717	13,625	11,242	8,537	6,828	5,197
Service fees	\$ 17,983	13,213	9,552	7,191	5,286	4,632	3,913	2,965	2,264	1,747
Other income—net	\$ 7,730	5,327	4,581	4,662	3,338	1,853	2,089	1,571	866	572
Total revenues	\$ 385,179	290,625	210,454	156,948	116,834	69,622	52,247	43,228	29,089	18,111
Income before income taxes	\$ 69,341	50,485	34,709	27,074	19,608	12,561	8,612	6,752	3,787	1,889
Net income	\$ 36,225	26,195	18,213	13,681	10,228	7,072	4,904	3,795	2,136	1,049
Net income per share**	\$ .94	.69	.50	.40	.30	.21	.16	.14	.08	.04
Stockholders' equity	\$ 201,940	138,194	109,187	51,047	38,070	28,270	21,576	7,155	3,753	1,735
Average common shares outstanding	38,388	37,559	35,957	33,561	33,359	32,932	31,310	28,419	27,936	27,540
Total assets	\$ 422,152	322,472	249,123	149,211	110,427	81,161	53,562	33,416	24,791	21,855
Total number of restaurants at end of year	2,272	1,904	1,592	1,298	1,087	967	862	738	657	550
Licensed	1,624	1,387	1,157	1,003	847	744	691	574	508	468
Company-owned	648	517	435	295	240	223	171	164	169	82

**Notes**

\* The above data, excepting stockholders' equity and total assets, includes the accounts of pooled businesses for the year of acquisition and the four preceding years; stockholders' equity and total assets include the accounts of pooled businesses for the year of acquisition and the immediately preceding year.

\*\* Net income per share is based on average common shares outstanding after giving retroactive effect to subsequent stock splits and stock dividends and after recognition of dividend requirements on preferred stock.

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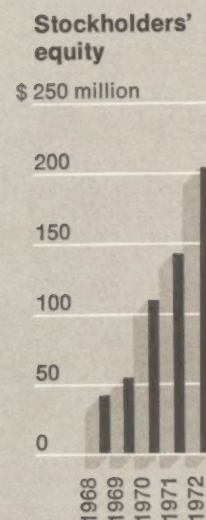
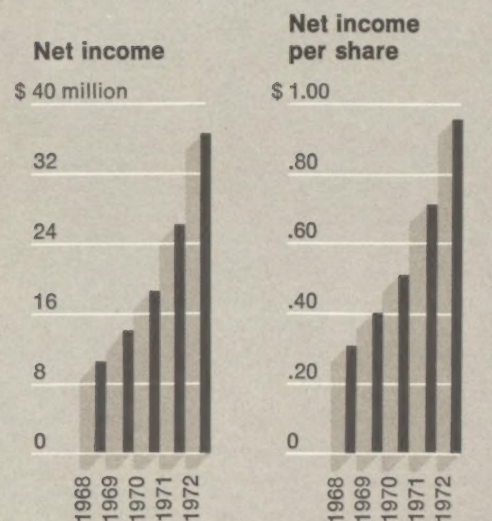
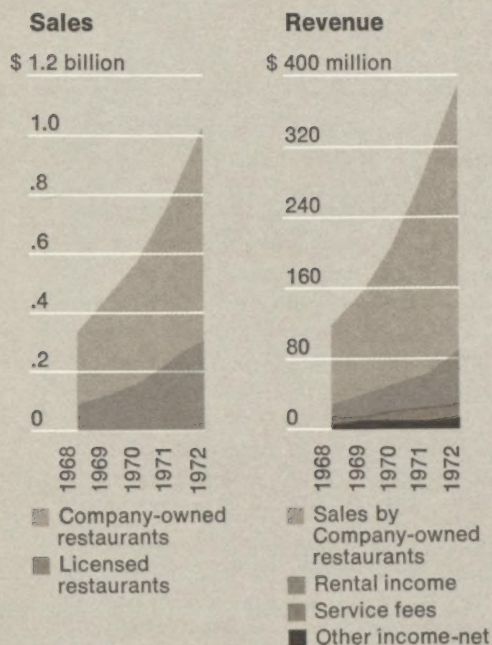
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Directory of restaurant locations centerspread insert



# Message from management



We are pleased to report that on December 17, 1972, your company for the first time reached \$1 billion in sales by all licensed and company-owned restaurants within a calendar year. The year ended with sales of \$1,032,800,611.

The past year also was the most successful in company history in terms of earnings and expansion. Among the year's many achievements:

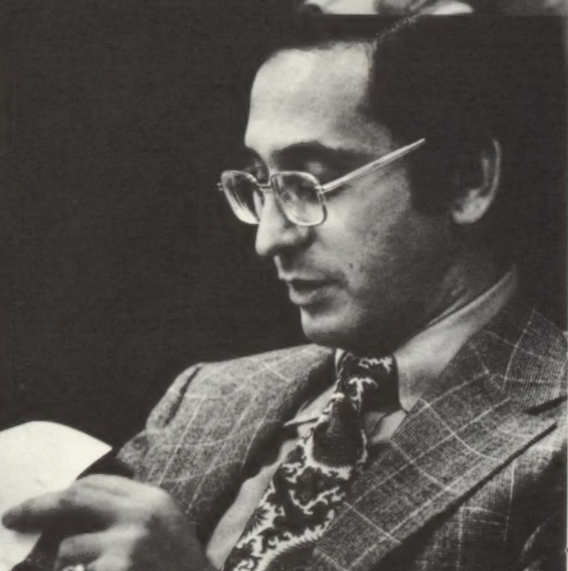
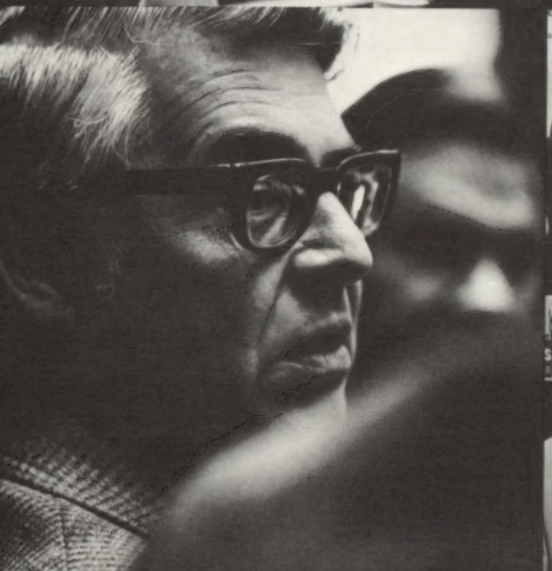
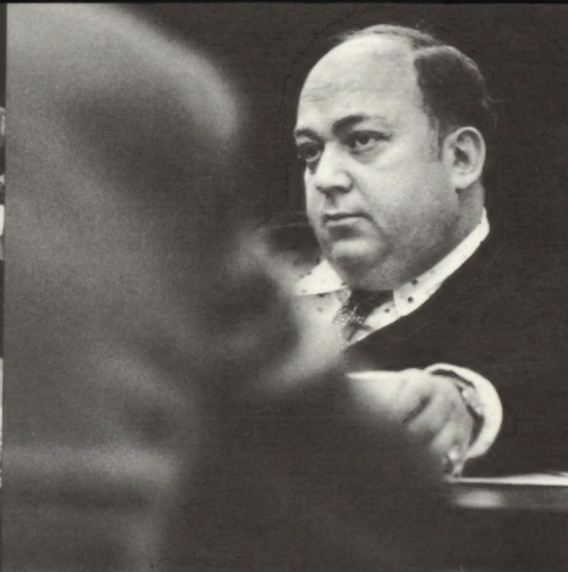
- ☐ Sales by all licensed and company-owned restaurants rose 32 per cent over 1971.
- ☐ Total revenues increased 33 per cent to \$385,179,000 from \$290,625,000 in the previous year. Revenues include sales by company-owned restaurants, rental income, service fees, initial location and license fees and other income.
- ☐ Net earnings were \$36,225,000, up 38 per cent over 1971.
- ☐ Per share earnings were 94 cents, an increase of 36 per cent from 69 cents in 1971, as restated for the two-for-one stock split in 1972 and poolings of interests acquisition transactions.
- ☐ Shareholders' equity increased to \$201,940,000 from \$138,194,000, an increase of 46 per cent. The increase results principally from 1972 net income and the conversion of the Company's 4½ per cent convertible subordinated debentures into common stock.
- ☐ Average sales volume of restaurants in the United States (opened 13 months or more) was \$508,000, up 11.5 per cent from \$455,000 in 1971.
- ☐ We opened a record 368 new restaurants, compared with 316 in 1971. At year-end there were 2,272 McDonald's in operation and 125 under construction.

These records were achieved in a year of economic controls when company operated restaurants absorbed unprecedented high food costs without the flexibility to pass on food cost increases.

At year end, your Company had acquired 42 existing restaurants for company operation: 33 by pooling and 9 by purchase; and had agreed in principle to acquire 36 restaurants. The restaurants, acquired from multiple licensees, are in Tennessee, Florida, Louisiana, Missouri, Illinois and Michigan. Almost three-fourths of McDonald's restaurants in the United States are licensed. Restaurants outside the United States are company owned, operated under joint venture agreements, or licensed.

At the end of 1972, 145 McDonald's were operating outside the United States, including 96 in Canada. Canadian operations now represent a viable profit center for your Company. We plan to open 65 additional McDonald's overseas







in 1973 and establish prototypes in two more new international markets.

Your Company's investment in land, buildings, leases and leasehold improvements at year end represented a 50 per cent increase over the comparable 1971 totals. The substantial increase underlines the current policy of your Company to own, as opposed to lease, its new sites, and to purchase older leased sites. In 1972, 59 of the leased sites were purchased.

McDonald's was able to finance the 1972 property acquisitions by drawing upon the working capital generated by Company operations and by real estate mortgages. With the current emphasis on long-term mortgage financing, the leasing of new sites has declined correspondingly and has diminished the need for sale leaseback financing.

On April 11, we redeemed all McDonald's \$25 million 4½ per cent convertible subordinated debentures due 1996 at a conversion rate of \$70.50 (pre-split) per share of common stock. All debentures were converted to common stock.

A two for one stock split was distributed June 5.

A secondary offering of 556,656 post-split shares of McDonald's stock was marketed June 20, for the accounts of 40 selling stockholders. The Corporation received none of the proceeds of the offering and there was no dilution of stockholders' equity.

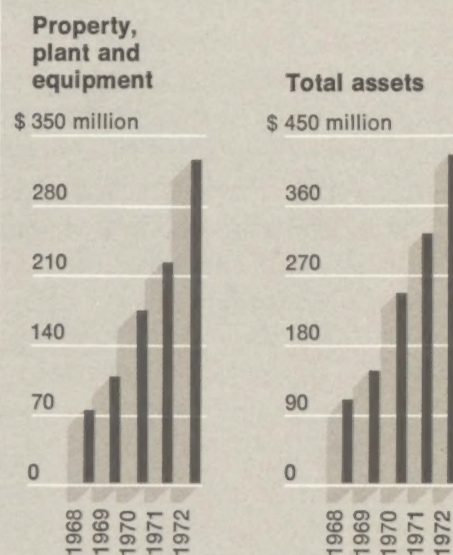
We opened our 2,000th restaurant in July in Des Plaines, Illinois, and in August, served our 10 billionth hamburger. Our 11 billionth hamburger was served five months later, compared with the eight years required to reach our first billion mark.

National introduction of our newest sandwiches, the Quarter-Pounder and the Quarter-Pounder with Cheese, began in 1972 and at year end the product was being served in 1200 McDonald's. Results thus far place these items among the most successful of our new menu additions.

Testing continues of Egg McMuffin, a toasted English muffin topped with a fried egg, a slice of Canadian bacon and a slice of cheese.

By adjusting to changing customer needs and expectations through new architecture, new concepts of site selection, new menu items and new markets, your Company continues to demonstrate the flexibility of the McDonald's concept. This flexibility produces an increase in the frequency of visits by our customers, in addition to bringing new customers to our restaurants.

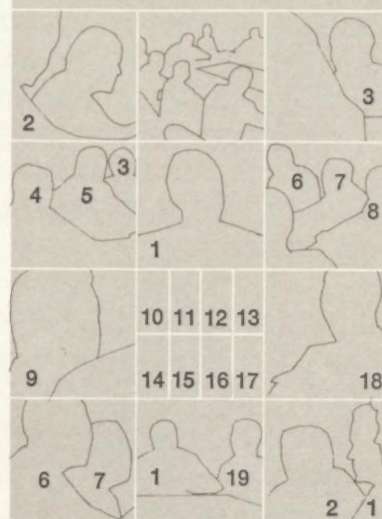
Internal flexibility is demonstrated by continued decentralization to better serve and counsel our licensees and managers. We adhere to the philosophy that the closer to the market place the decision is made, the better the decision. In 1971 we had six regional and five district offices; today we have eight regional, eight district and 22 sub-regional offices.



McDonald's is in a people business, and since our founding in 1955, we've emphasized the development of people as essential to the development of your Company.

Each member of our management team possesses the skills to serve and counsel our licensees, to develop future management, and to maintain and encourage a flexibility that stimulates and accepts change.

Our management, the people pictured on the facing page, is committed to McDonald's and to its future, and each is an active, contributing participant in the continuing growth of your Company.



key:

- |                      |                       |
|----------------------|-----------------------|
| 1 Fred L. Turner     | 11 Bernard T. Hall    |
| 2 Richard J. Boylan  | 12 John G. Johnson    |
| 3 Gerald Newman      | 13 H. Cliff Hullender |
| 4 C. J. Lynch, Jr.   | 14 Frank Behan        |
| 5 Edward H. Schmitt  | 15 Frank R. Phalen    |
| 6 G. Brent Cameron   | 16 Donald Smith       |
| 7 James C. Schindler | 17 Terry A. Collins   |
| 8 Paul D. Schrage    | 18 Donald P. Horwitz  |
| 9 Steven J. Barnes   | 19 Marge Wemlinger    |
| 10 John L. Coons     |                       |



Each regional and district office is fully staffed in advertising, promotion, real estate, construction and remodeling, training and restaurant operations, licensing and purchasing to provide our licensees and Company owned restaurants more and better service and assistance.

Shortly after the end of the year, we broke ground for a \$1 million addition to Hamburger University that will more than double the size of our training center for licensees and managers. Hamburger U., in Elk Grove Village, Illinois, opened in 1968 and last year graduated more than 1,200 students.

Our management development program continues to offer your Company an invaluable source of experienced personnel at all levels of operation.

Gerald Newman was promoted to Executive Vice President and will continue as your company's Chief Accounting Officer and Controller.

In 1972 Frank R. Phalen was named Vice President—Regional Manager of our Mid-East Regional Office and John G. Johnson became Regional Manager for the newly created New York Region. With the division of our Western Region, Terry A. Collins became Regional Manager—Los Angeles, and Vice President John L. Coons was made Regional Manager—San Francisco.

Donald P. Horwitz, formerly a partner in Arthur Young & Company, the international public accounting firm, was named Vice President, General Counsel and Secretary.

Norman D. Axelrad, a Vice President, was named to head Public Affairs and became Chairman of our Committee on Public Responsibility; and Clark S. Baldwin became Vice President—International Operations.

We are enthusiastic about the long term prospects for your Company. McDonald's growth over the past 17 years is the product of creative corporate planning, the dedication of our employees and the involvement and hard work of our licensees.

Each McDonald's licensee, with whom we have a long term lease and license, is an independent businessman. His task, of running a business with average cash sales of half a million dollars a year, requires his total commitment.

With formal training acquired at Hamburger University and then sharpened by experience, our licensee is involved in personnel, purchasing, advertising, accounting, finance, marketing and community relations. As he builds a management team, he provides for his future growth and continued success, and as he applies his considerable talents to each facet of his business, he meets the daily challenge of Quality, Service and Cleanliness. Because our licensees contribute, and have contributed, so much to McDonald's, we look forward with them to continued growth and success.

Our Annual Meeting will be held at 10:00 A.M., Tuesday, May 15, at the UA Cinema I Theatre, 1111 West 22nd Street in Oak Brook, Illinois, across the street from McDonald's Corporation Headquarters building. We hope you will attend.



**Ray A. Kroc**

Chairman

**Fred L. Turner**

President



# Management

## Directors

Ray A. Kroc  
Richard J. Boylan

Donald G. Lubin

J. R. Simplot  
Allen P. Stults

Fred L. Turner  
David B. Wallerstein

June Martino

Chairman of the Board, Chief Executive Officer  
Senior Executive Vice President,  
Chief Financial Officer, Treasurer  
Partner—Sonnenschein Levinson Carlin  
Nath & Rosenthal, Chicago  
President—J. R. Simplot Company, Boise, Idaho  
Chairman of the Board—  
American National Bank and Trust Company of Chicago  
President, Chief Administrative Officer  
Business Consultant  
Honorary Director

## Officers

Norman D. Axelrad  
Clark Baldwin  
Steven J. Barnes  
Frank Behan  
Richard J. Boylan

G. Brent Cameron  
Burton D. Cohen  
John D. Cooke  
John L. Coons  
Seymour Greenman  
Bernard T. Hall  
Donald P. Horwitz  
H. Cliff Hullender  
Ray A. Kroc  
Edward Lifmann  
C. J. Lynch, Jr.  
Gerald Newman  
Robert A. Papp  
Frank R. Phalen  
Robert B. Ryan  
Luigi Salvaneschi  
James C. Schindler  
Edward H. Schmitt  
Paul D. Schrage  
Donald Smith  
Fred L. Turner  
James D. Zien

Vice President  
Vice President  
Executive Vice President, President International Division  
Regional Vice President  
Senior Executive Vice President,  
Chief Financial Officer, Treasurer  
Executive Vice President  
Assistant Secretary  
Vice President  
Regional Vice President  
Assistant Vice President, Assistant Secretary  
Regional Vice President  
Vice President, Secretary, General Counsel  
Regional Vice President  
Chairman of the Board, Chief Executive Officer  
Vice President  
Executive Vice President  
Executive Vice President, Controller  
Vice President  
Regional Vice President  
Vice President, Assistant Treasurer  
Vice President  
Executive Vice President—Design  
Executive Vice President  
Executive Vice President  
Regional Vice President  
President, Chief Administrative Officer  
Vice President

## Corporate headquarters

McDonald's Corporation  
McDonald's Plaza  
Oak Brook, Illinois 60521

## Regional offices

Atlanta, Georgia  
Bloomfield, New Jersey  
Boston, Massachusetts  
Chicago, Illinois  
Columbus, Ohio  
Los Angeles, California  
San Francisco, California  
Washington, D.C.

## District offices

Cherry Hill, New Jersey  
Columbus, Ohio  
Dallas, Texas  
Indianapolis, Indiana  
Minneapolis, Minnesota  
Raleigh, North Carolina  
St. Louis, Missouri  
Southfield, Michigan

## Transfer agent

American National Bank and  
Trust Company of Chicago  
33 North LaSalle Street  
Chicago, Illinois 60690

## Registrar

The Northern Trust Company  
50 South LaSalle Street  
Chicago, Illinois 60690



The 2000th McDonald's, dedicated July 23 to our millions of loyal customers, our licensees and our customers, is in Des Plaines, Illinois, where our first and 1000th McDonald's are in operation.

## Year in review

One of our restaurants in Japan is on the Ginza, a Tokyo shopping district visited by more than a million people a day.

Your Company enjoyed a precedent setting year in 1972, when sales, revenues and earnings reached record marks, when our 10 billionth hamburger was served and our 2000th restaurant was opened, and when national introduction of a new McDonald's sandwich was initiated.

But 1972 also was characterized by new demonstrations of the strength and flexibility of the McDonald's concept as we continued to respond to the changing needs and wants of our customers everywhere.

The unique McDonald's concept embodies QSC, Quality, Service and Cleanliness; the convenience and value of a self service, limited menu restaurant; the local involvement and independence of a progressive licensee; and the fulfillment of our business objective: Satisfy the customer.

### New restaurants

During the year, your Company opened a record 368 new McDonald's. New domestic openings were highlighted July 23, when the 2,000th restaurant in our chain was dedicated formally in Des Plaines, Illinois.

Outside North America, we opened 25 new McDonald's in five markets.

Red and white tile buildings converted to our new brick and mansard roof style



reached a record 253 during the year, and at the end of 1972, only 417 of the old style buildings remained among our 2,272 McDonald's. 72 remodeling projects were underway at year's end.

All McDonald's restaurants constructed since 1969 are of our new brick and distinctive roof style. More than 45 per cent of all McDonald's now offer indoor dining areas and the percentage will increase as more new McDonald's are opened and new remodeling projects are accomplished.

With the continually increasing volume of our restaurants, the greater frequency of customer visits, and the addition of indoor seating, our licensees, in conjunction with the company, are acquiring additional parking space.

Increased parking space enables a remodeled restaurant to match its greater production and service capability with more customer convenience.

Indoor seating also offers the opportunity for additional business from more customers.

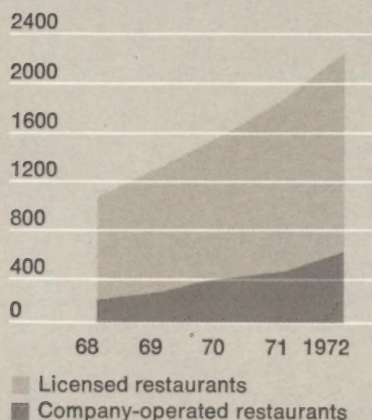
Our attention to the restaurant's appearance—plus the desire to keep each McDonald's an attractive complement to the community—require attentive upgrading with new lighting, imaginative interior and exterior decors, and frequent re-landscaping.

Your Company is proud to honor the best landscaped McDonald's—licensed and company-owned—through regional and national competition each year.

Many of our new restaurants opened last year were the traditional McDonald's site—a free standing building with adjacent parking area in a suburban community.

But the flexibility of the McDonald's concept allows us to move into new communities—and to penetrate new markets for the first time—with new kinds

Number of restaurants





Hamburger University, which graduated more than 1,200 students in 1972, is doubling in size with the addition of more classroom space, photographic processing facilities and a closed circuit television studio.

A complete test kitchen is one element of the new Product and Equipment Evaluation Center in our Headquarters Building.



of McDonald's restaurants. By going to the place where people work, shop and play, we are making McDonald's more convenient to our customers and we are keeping up to date with changing life styles.

Three new McDonald's were opened in 1972 in downtown Manhattan; they are our first in that section of New York City.

These new restaurants are designed for the heavy pedestrian traffic of an urban area and have no parking; similar McDonald's are in operation in Boston, Pittsburgh, Honolulu and Chicago, among other cities.

Your company is continuing to locate new McDonald's in shopping center malls, along the Interstate Highway System and in communities once considered too small to support a standard size McDonald's.

The selection of sites in new and established markets is a vitally important responsibility, and we are refining and improving our site selection process. One tool currently in use is a McDonald's developed computer program which is used by our real estate people to help evaluate potential sites.

National introduction began in 1972 of McDonald's newest sandwiches, the Quarter-Pounder and the Quarter-Pounder with Cheese, and by the end of the year, the new products were being served in 1,200 McDonald's.



### New products

1972 marked the start of national introduction of our newest sandwiches, the Quarter-Pounder and the Quarter-Pounder with Cheese. By year end, the sandwiches were being served in more than 1200 McDonald's throughout the country.

Both sandwiches are meeting wide acceptance, particularly among adults and new customers, while Big Mac customers have remained loyal to their favorite sandwich.

McDonald's also began the test of a new menu item and concept in 1972—breakfast at McDonald's, featuring Egg McMuffin, a toasted English muffin topped with a fried egg, a slice of Canadian bacon and a slice of Cheddar cheese. At year end, testing continued.

Most of those restaurants open at 7 a.m. and, in addition to Egg McMuffin, serve orange juice, coffee and our regular menu items.

Tests of French Fried Onion Rings and McDonaldland Cookies started in a few markets in 1972.

To aid us in refining present products and in testing new products, equipment and production techniques, a new Product and Equipment Evaluation Center designed by McDonald's people opened early in 1973. The center, which includes a test kitchen and facilities for scientific taste testing, is located in the home office in Oak Brook, Illinois.





Ronald McDonald visits with Peggy Sue MacKenzie, 1972 muscular dystrophy poster child, during the Telethon.

Your Company and our licensees joined with the 1972 Jerry Lewis Telethon and helped raise a record \$9,200,000 for the fight against muscular dystrophy.

### New marketing

Your Company's marketing objectives in 1972 included inviting more customers and potential customers to McDonald's more often.

We stressed local advertising and promotion efforts as a key to building each McDonald's volume growth.

To assist each of our restaurants, retail trading area surveys are conducted to help evaluate our marketing position. Results help our licensees customize local advertising and promotions.

In addition to aggressive local advertising and promotion activities, our licensees join forces in a national voluntary cooperative OPNAD Fund (Operators National Advertising) and, with the Corporation, purchase national advertising.

The 1972 investment in national and local advertising by our individual restaurants and your Corporation exceeded \$40 million, making your Company the nation's number two retail advertiser.

Our advertising stressed our popular theme "You deserve a break today, so get up and get away to McDonald's" and we continued to emphasize the outstanding value we offer our customers.

Two McDonaldland Parks, featuring playground equipment styled after our McDonaldland characters, were opened

in 1972. The Parks, one adjacent to a McDonald's in Chula Vista, California, a San Diego suburb, and the other in Chicago Heights, Illinois, a Chicago suburb, have been well received; the only requirement for admission is that every adult must be accompanied by a child!

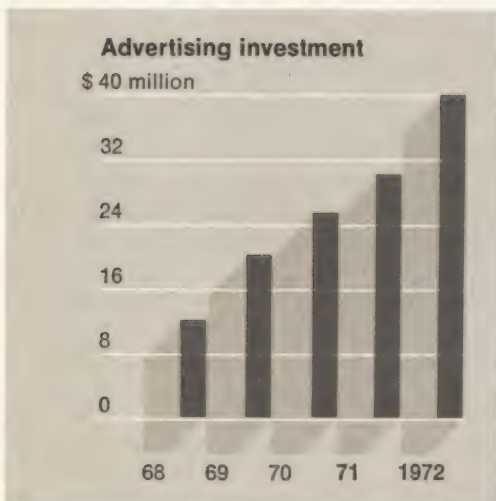
In service to the community—locally or nationally—McDonald's continued to exercise its now traditional role of leadership.

McDonald's All American Band, composed of the 101 best high school musicians in the nation, once again stepped off in Macy's Thanksgiving Day Parade in New York City and in the Tournament of Roses Parade in Pasadena on New Year's Day. The musicians, who represent all 50 states and the District of Columbia, are selected from nominations made by 30,000 high school band directors.

Your Corporation and its licensees participated in the 1972 Jerry Lewis Muscular Dystrophy Telethon on Labor Day, and will join in the fund raising effort again in 1973.

The telethon, which raised a record \$9.2 million for treatment of muscular dystrophy patients—many of whom are youngsters—and for research, was supported by McDonald's restaurants throughout the country.

Some McDonald's donated all receipts





It's VIP treatment for these youngsters, guests of McDonald's aboard one of our region's fully equipped Big Mac motor coaches.

Chairman Ray A. Kroc accepts the Horatio Alger award from Dr. Norman Vincent Peale, Chairman of the Horatio Alger Awards Committee. The award is named for the author whose heroes achieved fame and success through honesty, hard work and determination. Mr. Kroc was one of ten Americans honored by the Committee in 1972.

from a busy lunch or dinner hour and served as distribution centers for fund raising materials.

During 1972, each of our regions was provided with its own Big Mac motor coach by Chairman Ray Kroc. The coaches, leased to your Company for \$1 a year, are fully equipped with living room-like interiors and are used for a variety of community relations activities.

#### The McDonald's concept: unique and flexible

Since its founding in 1955, your Company has enjoyed increasing customer approval and steady growth.

Our growth has been stimulated by the consistency of QSC—Quality, Service and Cleanliness—and by the *flexibility of the McDonald's concept*. We remain a licensing company with a commitment to each of our licensees to provide them exacting product specifications, the best methods of food preparation and service, and comprehensive, on-going field support.

Average store volume has climbed from \$391,000 in 1969 to \$508,000 in 1972. Membership in our "Over \$500,000 Club" increased to 901, in 1972, from 543 in 1971 and 183 in 1969. 128 restaurants had sales in excess of \$750,000 in 1972, and 14 McDonald's exceeded one million dollars in sales in 1972, compared with three in 1971.

We are especially proud of those achievements which have helped differentiate McDonald's during the past three years:

- ☐ The restaurants constructed of our new brick and mansard roof style.
- ☐ The red and white tile buildings remodeled to our new look.
- ☐ The additional convenience of indoor seating in new and remodeled McDonald's.
- ☐ The new products added to our menu, including the Big Mac Sandwich, Large Fries and the Quarter-Pounder and the Quarter-Pounder with Cheese.
- ☐ The McDonald's opened outside the United States.

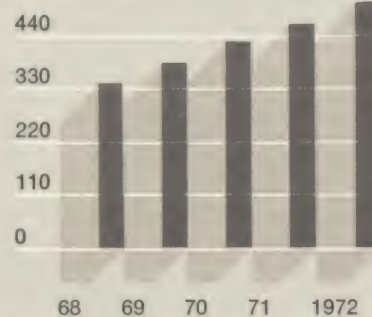
Our customers have made McDonald's synonymous with the hamburger, America's most popular food.

Your Company is young and growing—and thanks to our customers, our licensees and our shareholders—we look to our brief history with pride and to our future with confidence.



Average volume per restaurant

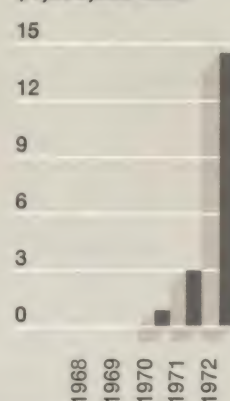
\$ 550 thousand



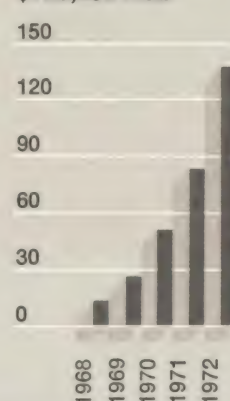
Includes only stores in operation for 13 months or more.



Over \$1,000,000 club



Over \$750,000 club



Over \$500,000 club













**McDonald's Corporation and Subsidiaries consolidated balance sheet**

<b>Assets</b>	<b>December 31, 1972</b>	<b>and 1971</b>
<b>Current assets:</b>		
Cash and certificates of deposit	\$ 27,555,000	\$ 15,193,000
Short-term investments, at cost, which approximates market	31,158,000	25,449,000
Notes receivable	2,627,000	2,194,000
Accounts receivable	9,857,000	10,991,000
Inventories, at cost, which is not in excess of market	3,681,000	2,827,000
Prepaid expenses and other current assets	5,937,000	4,341,000
Costs recoverable under financing agreements (Note 1)	525,000	30,596,000
Total current assets	81,340,000	91,591,000
 <b>Other assets and deferred charges:</b>		
Notes receivable due after one year	8,758,000	5,731,000
Investment in and advances to 50% owned domestic affiliate	7,685,000	1,100,000
Miscellaneous	6,585,000	4,819,000
Total other assets and deferred charges	23,028,000	11,650,000
 <b>Property, plant and equipment (Note 4):</b>		
Land	90,928,000	57,033,000
Buildings, leases and leasehold improvements	177,196,000	122,040,000
Equipment and signs for stores	56,641,000	40,960,000
Furniture, fixtures and other equipment	6,708,000	3,278,000
	331,473,000	223,311,000
Less accumulated depreciation and amortization	38,023,000	28,496,000
Net property, plant and equipment	293,450,000	194,815,000
 <b>Intangible assets:</b>		
Franchise and operating rights (Note 3)	24,280,000	24,344,000
Other, at cost less accumulated amortization	54,000	72,000
Net intangible assets	24,334,000	24,416,000
	<u>\$422,152,000</u>	<u>\$322,472,000</u>



Liabilities and stockholders' equity	December 31, 1972	and 1971
<b>Current liabilities:</b>		
Notes payable	\$ 8,773,000	\$ 7,579,000
Accounts payable	30,713,000	20,086,000
Income taxes	13,712,000	10,832,000
Other accrued liabilities	7,108,000	5,938,000
Current maturities of long-term debt	11,094,000	11,655,000
<b>Total current liabilities</b>	<b>71,400,000</b>	<b>56,090,000</b>
<b>Long-term debt (Note 4):</b>		
Mortgage notes and land purchase contracts payable	63,406,000	48,608,000
Interim loans for construction, covered by mortgage commitments	23,189,000	870,000
Notes payable—		
Revolving credit	17,000,000	17,000,000
Equipment purchases	12,674,000	10,909,000
Other	690,000	559,000
4½ % convertible subordinated debentures		25,000,000
<b>Total long-term debt</b>	<b>116,959,000</b>	<b>102,946,000</b>
<b>Deferred federal income taxes (Note 5)</b>	<b>8,359,000</b>	<b>5,871,000</b>
<b>Security deposits by lessees (Note 7)</b>	<b>23,494,000</b>	<b>19,371,000</b>
<b>Commitments and contingent liabilities (Note 6)</b>		
<b>Stockholders' equity (Notes 8 and 12):</b>		
Series preferred stock, no par value—		
Authorized—300,000 shares		
Issued and outstanding—3,303 shares	3,303,000	3,303,000
Common stock, no par value—		
Authorized—100,000,000 shares		
Issued and outstanding—38,651,473 shares (37,733,841 shares in 1971)	4,298,000	4,196,000
Additional paid-in capital	75,566,000	47,949,000
Retained earnings (Note 4)	118,773,000	82,746,000
<b>Total stockholders' equity</b>	<b>201,940,000</b>	<b>138,194,000</b>
	<b>\$422,152,000</b>	<b>\$322,472,000</b>

See accompanying notes.



McDonald's Corporation and Subsidiaries consolidated statement of income

	years ended December 31, 1972	and 1971
<b>Revenues:</b>		
Gross sales by Company-owned stores	\$302,715,000	\$230,108,000
Rental income	56,751,000	41,977,000
Service fees	17,983,000	13,213,000
Initial location and license fees	2,084,000	1,734,000
Gains on sales of Company-owned stores	3,408,000	1,721,000
Interest and other income—net	2,238,000	1,872,000
Total revenues	385,179,000	290,625,000
<b>Costs and expenses:</b>		
Company-owned stores—		
Food and paper	119,151,000	87,425,000
Payroll	63,575,000	48,743,000
Rent	8,398,000	6,301,000
Depreciation and amortization	7,640,000	6,130,000
Other operating expenses	51,989,000	39,087,000
Interest expense	2,763,000	2,389,000
	253,516,000	190,075,000
Expenses applicable to rental income—		
Rent	14,297,000	10,067,000
Depreciation and amortization	2,955,000	2,720,000
Interest expense	3,042,000	2,647,000
	20,294,000	15,434,000
General, administrative and selling expenses	41,781,000	30,924,000
Other interest charges (principally on long-term debt) (Note 4)	247,000	3,707,000
Total costs and expenses	315,838,000	240,140,000
Income before income taxes	69,341,000	50,485,000
Provision for income taxes (Note 5)	33,116,000	24,290,000
Net income	<u>\$ 36,225,000</u>	<u>\$ 26,195,000</u>
Net income per share of common stock (Note 11)	<u>\$ .94</u>	<u>\$ .69</u>

See accompanying notes.



	years ended December 31, 1972	and 1971
Balance at beginning of year, as previously reported		\$56,215,000
Restatement for companies acquired through poolings of interests (Note 2)		652,000
Balance at beginning of year, as restated	\$ 82,746,000	56,867,000
Net income	36,225,000	26,195,000
Adjustments related to pooled businesses, arising principally from pro forma income tax provisions and differences in fiscal years		10,000
	118,971,000	83,072,000
Deduct:		
Dividends paid on Series preferred stock— \$60 per share	198,000	198,000
Distributions of pooled businesses prior to acquisition		128,000
	198,000	326,000
Balance at end of year (Note 4)	<u>\$118,773,000</u>	<u>\$82,746,000</u>

See accompanying notes.



McDonald's Corporation and Subsidiaries consolidated statement of changes in financial position

	years ended December 31, 1972	and 1971
<b>Source of working capital:</b>		
Operations—		
Net income	\$ 36,225,000	\$26,195,000
Charges against net income not involving working capital:		
Depreciation and amortization (Note 1)	11,641,000	9,597,000
Amortization of intangible assets and deferred charges	926,000	798,000
Deferred federal income taxes	2,488,000	2,494,000
Provisions in lieu of income taxes (Note 5)	1,347,000	
	52,627,000	39,084,000
Adjustments relating to pooled businesses prior to acquisition		(57,000)
Total from operations	52,627,000	39,027,000
Issuance of securities—		
Common stock:		
Conversion of debentures	24,222,000	
Exercise of options	2,517,000	1,888,000
	26,739,000	1,888,000
Long-term debt:		
4½ % convertible subordinated debentures		25,000,000
Mortgage and other notes	27,423,000	20,530,000
Interim loans for construction, covered by mortgage commitments—net	22,319,000	
	49,742,000	45,530,000
Property and equipment disposals (gains and losses included in operations)	3,519,000	5,233,000
Security deposits by lessees	4,241,000	3,879,000
Total source of working capital	136,868,000	95,557,000
<b>Use of working capital:</b>		
Additions to property, plant and equipment	113,336,00	55,644,000
Businesses purchased (Note 2)—		
Property, plant and equipment	535,000	741,000
Franchise and operating rights	1,112,000	3,403,000
	1,647,000	4,144,000
Notes receivable due after one year	5,299,000	1,198,000
Advances to 50% owned domestic affiliate	6,585,000	568,000
Long-term debt reductions—		
Mortgage and other notes	10,729,000	14,173,000
Conversion of debentures	25,000,000	
	35,729,000	14,173,000
Other changes in financial position—net	(167,000)	2,635,000
Total use of working capital	162,429,000	78,362,000
Increase (decrease) in working capital (Note 13)	<u>\$ (25,561,000)</u>	\$17,195,000

See accompanying notes.



## 1 Summary of significant accounting policies

### a. Consolidation policy and basis of presentation —

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. Investments in 50%-owned companies, which are not material to the consolidated financial statements, are carried at equity in the companies' net assets.

All significant intercompany transactions are eliminated in consolidation.

Subsidiaries and 50%-owned companies operating in foreign countries other than Canada are in the development stage. All net costs relating to their activities, which are immaterial to the consolidated financial statements, are deferred and will be amortized by charges against income of future periods, commencing when the respective companies are determined to be operational.

The accounts of foreign subsidiaries and 50%-owned companies, principally Canadian, are translated into U.S. dollars based generally on (1) current exchange rates for monetary assets and liabilities, (2) historical exchange rates for nonmonetary assets and liabilities and stockholders' equity, and (3) average exchange rates for revenues, costs and expenses (other than depreciation) and income taxes.

Certain reclassifications have been made in the 1971 consolidated financial statements to conform to the presentation for 1972.

### b. Property, plant and equipment—

Property, plant and equipment are carried at cost, which includes certain costs, primarily interest, incurred during construction. Depreciation of property, plant and equipment is provided principally on the straight line method over the following estimated useful lives: buildings—primarily 20 and 25 years; store equipment and signs—10 years; other equipment—3 to 10 years; and leasehold improvements—lesser of terms of lease or life of assets. Expenditures for maintenance and repairs are charged to expense as incurred. Expenditures for betterments and renewals are capitalized. Upon sale or other retirement of depreciable property, the cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in income, except that gains and losses incurred on sale and leaseback transactions (not material) are amortized over the lives of the related leases.

### c. Franchise and operating rights (Note 3)—

Proceeds from sales of certain exclusive foreign territorial licenses are credited against the cost of the underlying rights to the McDonald's system acquired by the Company in 1961. The balance of such rights is not being amortized, as the Company feels there is no decrease in value.

In accordance with an opinion of the Accounting Principles Board applicable to intangible assets acquired after October 1970, the costs attributable to reacquired unlimited term franchise rights acquired after that date are being amortized on the straight line method over 40 years. The costs of such rights acquired prior to October 1970 are not being amortized as, in the opinion of the Company, there is no decrease in value.

The costs of limited term franchise rights reacquired from licensees are being amortized on the straight line method over their remaining lives.

### d. Financing agreements and long-term debt—

The Company has sale and leaseback commitments to finance costs of restaurant property and buildings. The leases generally provide for initial terms of 20 or 25 years and renewal options which could extend the lease periods to 40 years. Under these sale and leaseback agreements the Company has options to purchase the properties at fair market value or at other prices (not lower than depreciated book values at the option dates) determined by formulas. Costs incurred which are recoverable under these financing agreements are shown as current assets. The Company also has permanent mortgage loan commitments for stores which are completed or under construction. Interim loans for construction which will be refinanced through mortgage loan proceeds, under existing commitments, are classified with long-term debt. The substantial decline in costs recoverable under financing agreements at December 31, 1972 compared with December 31, 1971, and the related decrease in net working capital for 1972, result from a change in emphasis during that year from sale and leaseback to mortgage financing for restaurant properties (see Note 4).

Issuance expense on long-term debt is deferred and amortized over the repayment term.

### e. Revenue recognition—

Initial location and license fees are recorded as income when the related store is opened. Expenses associated with the issuance of license agreements and site selection and assignment are charged to expense as incurred.

Gains on the sale of company-owned stores are recorded in income when the sales are consummated. Terms of notes receivable arising from such sales generally extend from 5 to 7 years.

Service fees from license agreements are taken into income on the accrual basis as the fees are earned and become due from the licensee.

Rentals are recorded in income as earned over the terms of the related leases.

### f. Income taxes—

For tax purposes depreciation of buildings and restaurant equipment is provided principally on accelerated methods and all interest charges, including interest on construction loans, are deducted currently. Deferred income taxes are provided in the consolidated financial statements on the net change method in recognition of these and certain other differences between income reported in the consolidated financial statements and income reported in the federal income tax returns.

United States income taxes are not accrued on undistributed earnings of foreign subsidiaries (immaterial in 1972 and prior years) as the Company considers such earnings to be permanently invested in the business.

The investment tax credit is accounted for on the flow-through method as a reduction of income tax provisions.

### g. Stock options—

Proceeds from the sale of common stock issued under option are credited to common stock to the extent of stated value and the excess is credited to additional paid-in capital. No charges are made against earnings with respect to these options. Income tax benefits arising from employee resales before the end of statutory holding period of stock acquired under option are credited to additional paid-in capital.

## 2 Store acquisitions and sales and numbers of stores in operation

The Company acquired 33 stores in 1972 and 24 stores in 1971, including related territorial rights, from licensees in transactions accounted for as poolings of interests. A total of 268,887 shares



of common stock (valued at \$11,134,000) were issued in the 1972 acquisitions and 172, 873 shares of common stock (valued at \$9,955,000) were issued in the 1971 acquisitions. The accounts of these acquired stores have been included in the consolidated financial statements for the entire 1971 and 1972 years.

Accordingly, the Company's consolidated revenues and net income as originally reported for 1971 have been restated \$12,438,000 and \$397,000, respectively, to reflect the contribution of the stores pooled in 1972. Their contribution to 1972 revenues and net income up to the dates of pooling, included in the consolidated financial statements, was not significant.

In February 1971, the Company purchased the 22% minority interest in its licensee subsidiary in western Canada for \$1,891,000. During 1971 the Company also purchased 6 stores from other licensees for \$1,882,000 and sold 27 stores to licensees. In 1972, 9 stores were purchased for \$1,647,000 and 31 stores were sold to licensees.

Results of operations of purchased stores have been included in the consolidated financial statements since dates of acquisition. Results of operations of stores purchased and sold during 1972, during the periods from January 1, 1971 to the respective acquisition and sale dates, were not material to the accompanying consolidated financial statements.

The numbers of stores in operation at December 31, 1972 and 1971 were as follows:

	1972	1971
Licensed to other operators	1,596	1,357
Operated by the Company	626	510
Leased to others (including 16 at December 31, 1972 and 17 at December 31, 1971 with options to purchase)	28	30
Operated by 50% owned affiliates	22	7
	<u>2,272</u>	<u>1,904</u>

### 3 Intangible assets

In 1961, the Company acquired the underlying rights (previously covered by a 99-year franchise agreement) to the McDonald's System, trademarks and trade names for \$2,700,000 plus acquisition costs. An aggregate of \$773,000 through December 31, 1972 and \$674,000 through December 31, 1971 (including \$99,000 for 1972 and \$38,000 for 1971), representing proceeds from the sales of certain exclusive foreign territorial licenses, has been credited against the cost of these rights.

In the acquisition of its Canadian licensees, the Company reacquired territorial licenses, previously granted, for an aggregate allocated cost of \$14,597,000, including \$2,022,000 incurred in 1971. The unamortized 1971 costs amounted to \$1,922,000 at December 31, 1972 and \$1,972,000 at December 31, 1971. During 1972, \$464,000 was credited against the remaining costs, representing tax benefits resulting from utilization of preacquisition loss carry-forwards. As indicated in Note 1, no amortization is being provided on the balance of these pre 1971 costs of \$12,111,000 at December 31, 1972 and \$12,575,000 at December 31, 1971.

The Company and its subsidiaries have also reacquired limited term franchise rights from certain of its licensees. The unamortized amounts totaled \$8,311,000 at December 31, 1972 and \$7,762,000 at December 31, 1971.

### 4 Long-term debt, dividend restrictions, and interest

Mortgage notes and land purchase contracts (which mature over various terms to 19 years) relate to land and buildings purchased and/or constructed by the Company and its subsidiaries. These obligations are generally payable in monthly instalments, with interest ranging from 5½ % to 10½ % per annum. Land, buildings and improvements with aggregate costs of approximately \$108,000,000 at December 31, 1972 were pledged as security for these obligations.

Prior to 1968, the Company entered into certain sale and leaseback arrangements requiring payment of rent equivalent to monthly amortization of cost, plus interest, generally over a fourteen year term. After five years, the Company has the option to purchase the property for the unamortized costs. At the conclusion of the lease, the title to the property reverts to the Company. The cost of stores sold and leased back under these arrangements (approximately \$10,900,000) are treated in the accompanying consolidated balance sheet as property, plant and equipment and the related rental obligations are included with mortgage debt.

The interim loans for construction (from banks) relate to stores completed or under construction which will be refinanced by long-term mortgage notes under commitment agreements with various lending institutions (see Note 1). Total mortgage commitments at December 31, 1972 and December 31, 1971 approximated \$72,000,000 and \$22,000,000, respectively. The commitments generally provide for mortgage note repayment terms of 18 to 20 years and interest rates ranging from 8% to 8¾ %. Amounts expended by the Company which are expected to be recovered through mortgage proceeds totaled approximately \$42,500,000 and \$13,500,000, at December 31, 1972 and December 31, 1971, respectively.

The Company has a \$17,000,000 revolving credit agreement with a group of banks under which current loans are due January 15, 1974, with interest (6½ % at December 31, 1972) at ½ % above prime rate. The due date may be extended from time to time by mutual consent of the parties to the agreement. Among other things, the agreement requires the Company to maintain minimum levels of consolidated working capital and ratios of earnings to fixed charges, and restricts the payment of cash dividends and repurchase of capital stock to 50% of consolidated net income earned from January 1, 1970. Consolidated retained earnings not restricted under provisions of this agreement amounted to \$39,746,000 at December 31, 1972.

Notes payable for equipment purchases relate principally to equipment and signs at Company-owned stores. These notes are generally due in monthly instalments and have maturities ranging up to five years, with interest at 5½ % to 9¼ % per annum. Equipment and signs with aggregate costs approximating \$31,500,000 at December 31, 1972 were pledged as security for the equipment purchase notes.

In March 1972, the 4½ % convertible subordinated debentures issued in July 1971 were called for redemption. Prior to the redemption date all of the debentures were converted into shares of common stock.

Payments of principal, interest and premium on certain previously outstanding subordinated promissory notes were based on gross receipts of all stores (both Company operated and licensed) according to certain formulas set forth in the note agreements, which also provided for deferred premium payments. The principal balance of the notes was fully paid in 1969 and all subsequent payments for periods through September 30, 1971 (including \$2,838,000 for 1971) were allocated to interest. Interest charges ceased on September 30, 1971. Payments after that date were charged against the deferred portion of the



premium, which was classified with current maturities of long-term debt at December 31, 1971. This amount was \$2,906,000 and was fully paid in 1972.

Aggregate maturities of mortgage notes, land purchase contracts and notes payable for the five years ending after December 31, 1972 (which includes maturity of the \$17,000,000 revolving credit note in 1974) are, approximately, as follows: 1973—\$11,000,000; 1974—\$26,800,000; 1975—\$8,300,000; 1976—\$5,900,000; and 1977—\$4,300,000.

## 5 Income taxes

The Company and its subsidiaries follow the practice of filing separate federal income tax returns and have elected to receive multiple surtax exemptions. Had such elections not been made, provisions for income taxes would have been greater by approximately \$1,200,000 in 1972 and \$1,300,000 in 1971.

The provision for income taxes consists of the following:

	1972	1971
Current:		
Federal and foreign	\$ 27,596,000	\$ 19,884,000
State	3,032,000	1,912,000
Deferred, principally federal (Note 1)	2,488,000	2,494,000
	<u>\$ 33,116,000</u>	<u>\$ 24,290,000</u>

The current income tax provision is after reduction for investment tax credits of approximately \$1,450,000 in 1972 (\$350,000 in 1971) and, in 1972, includes provisions in lieu of taxes of \$1,347,000.

## 6 Commitments

At December 31, 1972, the Company and certain of its subsidiaries were lessees under approximately 1,420 ground leases or improved leases covering McDonald's store locations. Lease terms are generally for twenty years and, in many cases, provide for renewal options. The lessee generally is obligated for the cost of property taxes, insurance and maintenance. Minimum annual rentals under leases in effect at the end of 1972 range from \$25,000,000 to \$22,900,000 during the ten years 1973 through 1982, and from \$22,000,000 to \$6,400,000 during the ten years 1983 through 1992. The Company and its subsidiaries also lease certain office space under leases expiring on various dates through 1980. Annual rentals approximate \$880,000.

The Company has guaranteed the payment of loans made to certain 50%-owned foreign companies. Amounts outstanding at December 31, 1972 on which the Company is guarantor approximated \$1,300,000.

Costs to complete restaurant construction under contracts existing at December 31, 1972 approximated \$10,600,000.

## 7 Rents received and deposits by lessees

Certain of the leased properties referred to in the preceding Note and other real estate owned by the Company and certain of its subsidiaries have been subleased or leased to licensees, who are obligated for the cost of property taxes, insurance and maintenance. The leases with store operators generally have twenty year terms. Minimum annual rentals receivable from store operators during the ten years 1973 through 1982 range from approximately \$40,100,000 to \$35,400,000. The subleases or leases also provide for percentage rental payments based on sales. For 1972, the percentage rental income amounted to \$21,472,000 (\$16,707,000 for 1971).

Lease security deposits received from the store operators (sublessees or lessees) are generally refundable 50% at the end of the fifteenth year and the balance at the termination of the lease. As of December 31, 1972, security deposit refunds which will become due for all years through 1977 approximate \$2,000,000. Refunds due for the individual years 1978 through 1992 range from approximately \$600,000 to \$2,300,000.

## 8 Capital stock and additional paid-in capital

Details of the Series preferred stock outstanding at December 31, 1972 and 1971 are as follows:

	Authorized shares	Issued and outstanding	
		Shares	Amount
6% cumulative convertible:			
Series A	2,500	2,300	\$ 2,300,000
Series B	373	373	373,000
Series C	158	158	158,000
Series D	472	472	472,000
			<u>\$ 3,303,000</u>

Each of the Series A through D preferred stocks has one vote per share and a liquidation preference of \$1,000 per share plus accrued dividends.

The Series A preferred stock is redeemable commencing July 1, 1973 at \$1,000 per share plus accrued dividends. On July 1, 1978, the Company is required to redeem the Series A stock then outstanding at that same price. Series B, C, and D preferred stock are redeemable July 1, 1974 through December 31, 1974 and after June 30, 1975, in each case at \$1,000 per share plus accrued dividends.

From January 1, 1973 through June 30, 1973 for Series A and January 1, 1974 through June 30, 1974 for Series B, C, and D, each share of preferred stock is convertible into that number of shares of common stock equal to the quotient derived by dividing \$900 by the greater of \$4.17 or the then-current market price (as defined) of the Company's common stock. From July 1, 1973 for Series A and July 1, 1974 for Series B, C, and D, the stocks are nonconvertible for a period of six months. Thereafter, each share is convertible into that number of shares of common stock equal to the quotient derived by dividing \$1,150 by the greater of \$1.67 or the then current market price (as defined) of the Company's common stock.

The 4½% convertible subordinated debentures in the principal amount of \$25,000,000, called for redemption in March 1972, were subsequently converted into 708,524 shares of common stock of the Company at \$35.25 per share plus cash in lieu of fractional shares.

In May 1972, the stockholders approved an increase in the authorized number of common shares from 25,000,000 to 100,000,000.

Common stock splits of 3-for-2 and 2-for-1 (effected in the form of 50% and 100% stock dividends) were distributed in June 1971 and June 1972, respectively. In connection therewith, transfers were made from additional paid-in capital to the common stock account of amounts equivalent to 50% and 100%, respectively, of the balances in the common stock account prior to the splits.



**A summary of changes in common stock outstanding and additional paid-in capital during 1971 and 1972 follows:**

	Common stock		Additional paid-in capital
	Shares	Amount	
Balance at January 1, 1971:			
As previously reported (after giving retroactive effect to a 3-for-2 stock split in 1971)	18,665,067	\$ 2,076,000	47,593,000
2-for-1 stock split in 1972	18,665,067	2,076,000	(2,076,000)
Businesses acquired in poolings of interests in 1972, less 60,914 shares returned in connection with 1970 business acquisitions	207,973	23,000	621,000
As restated	37,538,107	4,175,000	46,138,000
Exercise of stock options (Note 9)	195,734	21,000	1,867,000
Other changes			(56,000)
Balance at December 31, 1971	37,733,841	4,196,000	47,949,000
Conversion of debentures	708,524	79,000	24,143,000
Exercise of stock options (Note 9)	171,716	19,000	2,498,000
Shares issued in connection with the prior acquisition of Hawaiian stores	37,392	4,000	(4,000)
Income tax benefits arising from resale (before end of statutory holding period) of stock acquired under options			883,000
Other changes			97,000
Balance at December 31, 1972	<u>38,651,473</u>	<u>\$ 4,298,000</u>	<u>75,566,000</u>

At December 31, 1972, a maximum of 3,698,066 shares of common stock were reserved for (1) conversion of preferred stock (2,279,070 shares), (2) issuance under the stock option plan (513,854 shares) and (3) issuance to the former owners of stores in Hawaii acquired in poolings of interests in 1970 and contingent issuance of additional shares based on sales of such stores through certain subsequent dates to December 31, 1973 (905,142 shares). During 1973, 25,226 shares will be issued based upon 1972 sales. The issuance of the other shares depends on sales in 1973 and the Company estimates that approximately 11,000 shares will be issued.

## 9 Stock options

Under a stock option plan adopted in 1968 and amended in 1970, options to purchase a total of 900,000 shares of the Company's common stock may be granted to certain officers and key employees at prices not less than the fair market value of the stock at dates of grant. The plan terminates on April 30, 1973, but may be terminated sooner by the Board of Directors without affecting options then outstanding. Options become exercisable in five equal annual instalments commencing on the date of grant and expire five years from that date.

**Information as to options at December 31, 1972 and 1971 and for the years then ended is as follows:**

	Number of shares	
	1972	1971
At December 31:		
Outstanding (at prices ranging from \$9 to \$71)	431,234	411,170
Exercisable	165,231	147,352
Reserved for future options under the plan	82,620	274,400
During the year:		
Granted	205,900	174,250
Cancelled	14,120	13,410
Exercised (at prices ranging from \$9 to \$52)	171,716	195,734

## 10 Profit sharing plan

The Company has a trustee savings and profit sharing plan covering full time domestic salaried employees after two years of service. Company contributions (\$1,250,000 for 1972 and \$886,000 for 1971) are determined by the Board of Directors and are limited to the maximum amount deductible for federal income tax purposes.

## 11 Net income per share

Net income per share is computed based on the average number of common shares outstanding during each year, adjusted to give effect to stock splits and shares issued in connection with poolings of interests (Note 2), and is after recognition of annual dividend requirements on the Series preferred stock, as follows:

	1972	1971
Net income	\$ 36,225,000	26,195,000
Annual dividend requirements on Series preferred stock—\$60 per share	198,000	198,000
Net income applicable to common stock	<u>\$ 36,027,000</u>	<u>25,997,000</u>
Average number of common shares outstanding for the year	<u>38,388,435</u>	<u>37,558,767</u>
Net income per share	\$ .94	.69

Shares contingently issuable in connection with the acquisition of stores in Hawaii (Note 8) and stock options granted after May 31, 1969 are considered to be common stock equivalents. However, shares contingently issuable in connection with the Hawaiian stores, based on projected sales and earnings, have been excluded from the calculation of reported net income per share as their inclusion would not have a dilutive effect and would not change reported net income per share. Shares issuable upon exercise of stock options granted after May 31, 1969 have been excluded from the calculation since their inclusion, assuming acquisition of treasury stock with the proceeds from the stock options, would not change reported net income per share.

Assuming exercise of stock options at dates granted and conversion of the 4½ % subordinated debentures at January 1, 1972, no material dilution of reported net income per share for 1972 or 1971 would have resulted. Assumed conversion of outstanding preferred stock, based on the current price of the common stock, and conversion of the 4½ % subordinated debentures when issued in 1971, would not have a dilutive effect.



**12 Subsequent events**

Subsequent to December 31, 1972 the Company acquired 24 stores, including related territorial rights, from licensees in transactions to be accounted for as poolings of interests. The combined accounts of these companies are not material to the consolidated financial statements. Through February 28, 1973, the Company had also agreed in principle to acquire an additional 28 stores in pooling transactions not consummated at that date.

On February 16, 1973, the Series C preferred stock was repurchased at par value plus accrued dividends.

**13 Changes in elements of working capital**

	1972	1971
Increase (decrease) in current assets:		
Cash and certificates of deposit	\$ 12,362,000	(8,963,000)
Short-term investments	5,709,000	23,159,000
Notes receivable	433,000	567,000
Accounts receivable	(1,134,000)	3,922,000
Inventories	854,000	497,000
Prepaid expenses and other current assets	1,596,000	1,960,000
Costs recoverable under financing agreements	(30,071,000)	3,139,000
	(10,251,000)	24,281,000
Increase (decrease) in current liabilities:		
Notes payable	1,194,000	(5,256,000)
Accounts payable	10,627,000	3,397,000
Income taxes	2,880,000	5,010,000
Other accrued liabilities	1,170,000	937,000
Current maturities of long-term debt	(561,000)	2,998,000
	15,310,000	7,086,000
Increase (decrease) in working capital	\$ <u>(25,561,000)</u>	<u>17,195,000</u>

The Board of Directors and Stockholders  
McDonald's Corporation

We have examined the accompanying consolidated balance sheet of McDonald's Corporation and subsidiaries at December 31, 1972 and the related consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously made a similar examination of the consolidated financial statements for the prior year.

In our opinion, the statements mentioned above present fairly the consolidated financial position of McDonald's Corporation and subsidiaries at December 31, 1972 and 1971 and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

Chicago, Illinois  
February 28, 1973











